

Message Text

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PAGE 01 GUATEM 07275 221653Z

63

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FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 3575

UNCLAS GUATEMALA 7275

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TAGS: EFIN, GT

SUBJ: CONGRESS RELUCTANT TO APPROVE FOREIGN LOANS

SUMMARY: THE GUATEMALAN EXECUTIVE HAS INITIALED A LARGE NUMBER OF FOREIGN LOANS IN ORDER TO FINANCE RECONSTRUCTION WHILE PROCEEDING WITH DEVELOPMENT PROJECTS, BUT CONGRESS HAS BECOME RELUCTANT TO APPROVE THEM. THE PLANNING COUNCIL CLAIMS THE GOG MUST BE ABLE TO COUNT ON THE DISBURSEMENT OF \$670 MILLION OF EXTERNAL LOANS DURING THE FOUR YEARS OF 1976 THROUGH 1979. THIS WOULD INCREASE FOREIGN INDEBTEDNESS FROM \$198 MILLION AT THE END OF 1975 TO A PROJECTED \$784 MILLION BY THE END OF 1979. THE PLANNING COUNCIL CLAIMS THAT THIS DOES NOT REPRESENT A BURDENSOME LEVEL OF INDEBTEDNESS FOR GUATEMALA CONSIDERING THE STRENGTH AND EXPECTED GROWTH OF THE ECONOMY, AND THAT THE DEBT SERVICE RATION SHOULD ONLY INCREASE TO 2.9 PERCENT BY THE END OF 1979. STILL WORRIED, THE CONGRESSMEN IN SPECIAL SESSION, QUIZZED THE MINISTER OF FINANCE AT GREAT LENGTH ABOUT THE POLICY OF EXTERNAL BORROWING. THE CONSENSUS OF THE INTERCHANGE SEEMED TO BE THAT THOUGH NONE OF THEM WANTED TO INCUR FURTHER DEBTS FOR GUATEMALA, THEY REALIZED THE LOANS WERE NECESSARY. END

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PAGE 02 GUATEM 07275 221653Z

SUMMARY.

1. IN ORDER TO MEET EARTHQUAKE RECONSTRUCTION NEEDS WHILE PROCEEDING WITH NATIONAL DEVELOPMENT PLANS, THE GUATEMALAN MONETARY COUNCIL APPROVED THE CONTRACTION OF \$247.6 MILLION OF EXTERNAL LOANS WITHIN THE FIRST NINE MONTHS OF 1976. IN ADDITION, THE CONSTITUTION REQUIRES THAT EACH LOAN BE APPROVED BY THE PLANNING COUNCIL, THE COUNCIL OF STATE AND LASTLY, CONGRESS. CONGRESS READILY APPROVED THE EXTRAORDINARY \$105 MILLION IDB LOAN FOR THE CHIXOY HYDROELECTRIC PROJECT SINCE IT HAD BEEN EXPECTED FOR YEARS AND A LARGE PART OF THE IDB PADAGE CONSISTS OF SOFT LOAN MONEY. BUT THEN CONGRESS BECAME ALARMED BY THE PROJECTED SIZE OF GUATEMALA'S EXTERNAL PUBLIC DEBTS AND ALLOWED NINE SEPARATE LOAN OFFERS TO ACCUMULATE IN THE FINANCE COMMITTEE.

2. WITH THE OFFER OF SEVERAL LOANS ABOUT TO EXPIRE, THE EXECUTIVE BELATEDLY BEGAN TO PUT PRESSURE ON CONGRESS THROUGH PRESS STATEMENTS AND PERSONAL CONTACTS. IN EARLY SEPTEMBER, THE NATIONAL PLANNING COUNCIL PREPARED A REPORT FOR THE CONGRESSMEN ABOUT THE EXTERNAL DEBT SITUATION. THE REPORT EXPLAINS THAT THOUGH THE GOG HAD CONTRACTED FOR \$409.4 MILLION OF LOANS BY THE END OF 1975, ONLY PART OF IT HAD BEEN DISBURSED. THUS THE AMOUNT OWED WAS ONLY \$198.3 MILLION AT THE END OF 1975 AS COMPARED TO \$112.1 MILLION IN 1970. THIS IS EQUIVALENT TO ONLY 5.5 PERCENT OF THE GDP, AS OPPOSED TO 5.9 PERCENT IN 1970.

3. THE REPORT ASSERTS THAT FOR RECONSTRUCTION AND DEVELOPMENT NEEDS, THE GOG MUST BE ABLE TO COUNT ON THE DISBURSEMENT OF \$670 MILLION OF EXTERNAL LOANS DURING THE FOUR YEARS OF 1976 THROUGH 1979. UNDER THOSE CIRCUMSTANCES, THE REPORT ESTIMATES EXTERNAL PUBLIC DEBT AT \$784 MILLION BY THE END OF 1979. IT THEN ARGUES THAT THIS DEBT DOES NOT IMPOSE AN INORDINATE BURDEN ON THE ECONOMY OR THE GOVERNMENT. SINCE THE GOG IS ONLY ACCEPTING LONG-TERM, LOW-INTEREST LOANS FROM INTERNATIONAL LENDING AGENCIES, THE DEBT PAYMENTS WOULD ONLY INCREASE FROM \$19.2 MILLION IN 1975 TO \$38.9 MILLION IN 1979. IF EXPORTS INCREASE FROM \$800 MILLION IN 1975 TO UNCLASSIFIED

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PAGE 03 GUATEM 07275 221653Z

A PROJECTED \$1,323 MILLION IN 1979, THE DEBT SERVICE RATIO WOULD INCREASE ONLY SLIGHTLY FROM 2.4 PERCENT TO 2.9 PERCENT.

4. IN THE FACE OF THESE ARGUMENTS, AND WITH THE OFFERS ABOUT TO EXPIRE, CONGRESS APPROVED TWO LOANS OF \$7 MILLION EACH, ONE OF THEM AN AID EDUCATION LOAN. BOTH OF THESE LOANS HAD ORIGINALLY BEEN APPROVED BY THE MONETARY COUNCIL IN 1975,

AND BOTH HAD BEEN SUBMITTED TO CONGRESS IN EARLY APRIL 1976 WHEN IT RETURNED FROM RECESS. THE CONGRESSMEN THEN APPROVED ON ADDITIONAL SMALL LOAN OF \$.5 MILLION, BUT WITH SIX MORE LOANS TOTALLING \$91.6 MILLION AWAITING THEIR APPROVAL, THEY DUG IN THEIR HEELS. THEY DEMANDED THAT MINISTER OF FINANCE LAMPORT TESTIFY IN CONGRESS ABOUT THE POLICY OF FOREIGN BORROWING.

5. ON OCTOBER 19 LAMPORT APPEARED BEFORE CONGRESS WITH A RETINUE OF ADVISORS TO ANSWER THE CONGRESSMENS' QUESTIONS AND ASSUAGE THEIR FEARS. THE QUESTIONING WENT ON FOR FOUR HOURS AND DISPLAYED A SURPRISINGLY SOUND UNDERSTANDING OF ECONOMICS ON THE PART OF THE CONGRESSMEN.

6. ONE CONGRESSMAN POINTED OUT THAT THOUGH GUATEMALA'S FOREIGN RESERVES HAD GROWN OVER THE LAST FEW YEARS TO MORE THAN \$400 MILLION AT PRESENT, GUATEMALA HAD EXPERIENCED TRADE DEFICITS OF OVER \$100 MILLION FOR THE LAST TWO YEARS. HOW LONG COULD GUATEMALA COUNT ON A HEALTHY BALANCE OF PAYMENTS SITUATION? LAMPORT COUNTERED THAT THE EXTRAORDINARY IMPORT BILL CAUSED BY THE OIL CRISIS AND NOT BY RECONSTRUCTION NEEDS, WOULD SOON LEVEL OFF. HYDROELECTRIC PROJECTS WHICH ARE NOW BEING CONSTRUCTED WILL REDUCE OIL IMPORTS AND EXPORT EARNINGS ARE GROWING FAST.

7. SEVERAL CONGRESSMEN QUESTIONED WHETHER THE FOREIGN LOANS WOULD HELP REDUCE GUATEMALA'S DEPENDENCE ON AGRUCULTURE WHICH WAS STILL THE MAINSTAY OF THE ECONOMY AND PRODUCED THE BULK OF EXPORTS DESPITE PREVIOUS FOREIGN LOANS. LAMPORT POINTED OUT THAT GUATEMALA WAS NO LONGER DEPENDENT SOLEY ON THE PRODUCTION AND EXPORTATION OF COFFEE AND BANANAS. NOW A VARIETY OF AGRICULTURAL PRODUCTS INCLUDING COTTON, SUGAR, MEAT AND CARDAMOM ACCOUNTED FOR A LARGER AND LARGER PORTION UNCLASSIFIED

UNCLASSIFIED

PAGE 04 GUATEM 07275 221653Z

OF EXPORTS. EXPORTS OF NON-AGRICULTURAL PRODUCTS JUMPED FROM LESS THAN 10 PERCENT OF TOTAL EXPORTS IN 1963 TO OVER 30 PERCENT BY 1970.

8. ANOTHER CONGRESSMEN, A CHRISTIAN DEMOCRAT, ASKED WHETHER THESE FOREIGN LOANS WERE NOT BEING USED IN PLACE OF TAX REVENUE WHICH THE GOG SHOULD AUGMENT. LAMPORT COUNTERED WITH THE STATEMENT THAT THERE ARE TWO PROBLEMS WITH INCREASING TAX REVENUE; ONE IS TO RAISE TAX RATES AND THE SECOND IS TO COLLECT THE TAXES. THIS DREW A SYMPATHETIC RESPONSE FROM THE CONGRESSMEN. FURTHERMORE, HE WENT ON, GUATEMALA'S CURRENT NEEDS FOR RECONSTRUCTION PURPOSES AND DEVELOPMENT PROJECTS FAR EXCEEDS THE AMOUNT OF REVENUE WHICH COULD BE IMMEDIATELY GENERATED. ALL COUNTRIES BORROW

TO ACCELERATE THEIR DEVELOPMENT PLANS WHEN THEY CAN GET
SOFT LOANS FROM INTERNATIONAL AGENCIES. EVEN VENEZUELA
HAD RECENTLY BORROWED LARGE AMOUNTS FROM THESE AGENCIES.

9. NEAR THE END OF THE SESSION CAO CONGRESSMAN PONCE
MONROY, EX-MAYOR OF GUATEMALA CITY, SUMMARIZED THE SENTIMENT
OF CONGRESS WELL. HE EXPLAINED THAT THOUGH THEY
DID NOT LIKE TO SEE GUATEMALA INCURRING FOREIGN DEBTS,
THEY REALIZED THE LOANS WERE NECESSARY. THEIR ONLY
CONCERN WAS THAT THE LOANS BE WELL INVESTED.
BOSTER

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